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IN THE

Supreme Court of the United States

OCTOBER TERM, 1992

NINTENDO OF AMERICA INC.,
Petitioner,

v.

LEWIS GALOOB TOYS, INC.,
Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit

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PETITIONER'S REPLY BRIEF

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PETITIONER'S REPLY BRIEF

Petitioner, Nintendo of America Inc.,[1] hereby replies to Respondent Lewis Galoob Toys, Inc.'s Opposition to the Petition for Certiorari. Galoob's Opposition misleadingly conveys the impression that this case is inappropriate for review because the questions presented turn on a complex mass of disputed facts. In actuality, there is no material factual dispute underlying either of the questions presented. The parties agree on the facts relevant to the legal question of whether the Game Genie creates derivative works: *i.e.*, the technical means by which the computer program data and instructions embodied in the Game Genie generate altered versions of Nintendo's audiovisual works and the nature of the alterations to those works. The parties also agree on the historical facts that are relevant to resolving the legal question of fair use. What the parties disagree on is the correct resolution as a matter of law of the questions presented in light of these undisputed facts.[2]

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[1] Pursuant to Rule 29.1 of the Rules of this Court, petitioner Nintendo of America Inc. states that it is a wholly-owned subsidiary of Nintendo Co., Ltd., a Japanese corporation. Nintendo of America Inc. has no subsidiaries that are not wholly-owned.

[2] Although Galoob does not dispute Nintendo's description of the manner in which the Game Genie operates or the broad range of altered audiovisual works that it creates, *see* Pet. at 3-7, it makes additional assertions that require correction.

Galoob repeatedly points to the transience when displayed on a television screen of the images of the altered audiovisual works created by the Game Genie. *See, e.g.*, Opp. at 8, 9 n.8. Of course, the screen display of any audiovisual work played on a television is inherently transient, whether the work is a movie, a television program, or a video game. Courts have uniformly recognized that a video game audiovisual work displayed on a television screen is embodied for purposes of the Copyright Act in the computer program data and instructions from which it is generated. *See, e.g., M. Kramer Mfg. Co., Inc. v. Andrews*, 783 F.2d 421, 441 (4th Cir. 1986); *Midway Mfg. Co. v. Artic Int'l, Inc.*, 704 F.2d 1009, 1011-12 (7th Cir. 1983); *Williams Electronics, Inc. v. Artic Int'l, Inc.*, 685 F.2d 870, 874 (3d Cir. 1982); *Stern Electronics, Inc. v. Kaufman*, 669 F.2d 852, 855 (2d Cir. 1982). Thus, the altered audiovisual

I. THE ALTERED AUDIOVISUAL WORKS CREATED BY THE GAME GENIE ARE DERIVATIVE WORKS

As set forth in Nintendo's Petition, the copyright law is indifferent to the form or manner in which a work is embodied in a physical object or objects. Pet. at 9-13. Galoob concedes that, under this and other settled principles of copyright law, the altered audiovisual works created by the Game Genie would be infringing derivative works if all of the computer program data and instructions from which the altered works are generated were embodied in a single physical object (*e.g.*, a single Nintendo Entertainment System ("NES") game cartridge). Opp. at 14 n.12. Contrary to the Copyright Act and against all logic, however, Galoob insists that no derivative work is created when the identical altered audiovisual work is generated from the identical computer program data and instructions where those data and instructions are embodied in two physical objects (in this case, the Game Genie and the preexisting NES game cartridge) instead of one.[3]

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works at issue in this case are fixed and embodied because they are generated (and can be indefinitely reproduced) from computer program data and instructions contained in the Game Genie and the game cartridge. The transience of the screen displays of those altered works is irrelevant to the fact of their embodiment.

Despite Galoob's rhetorical attempt to characterize the Game Genie as a "hardware device" (a term not defined by Galoob nor one with any legal significance under the Copyright Act) no different from a videocassette recorder ("VCR"), *see, e.g.*, Opp. at 2, the Game Genie is only able to generate altered audiovisual works because it contains "software," *i.e.*, digital computer program data and instructions that, in combination with data and instructions from the game cartridge, generate the altered audiovisual work. *See* Pet. at 3-4. The Game Genie is no more a hardware device than are Nintendo's game cartridges, for without the software it contains it could not create the altered works that it does. In this respect, it is different from a VCR or any of the other "hardware" devices Galoob refers to, Opp. at 12, because none of them contain digital data and instructions that are processed by a computer to generate a copyrightable work.

[3] Galoob does not dispute that the altered audiovisual works are generated from computer program data and instructions, some of

Instead of addressing this issue and the facts of this case, Galoob advances a number of purported analogies (*e.g.*, improvisational singing in the shower, altering a bedtime story in the process of reciting it, fast-forwarding a videocassette recorder ("VCR"), fiddling with the controls of a compact disc player, home stereo, or home television) that it claims are technically and legally indistinguishable from the Game Genie. Opp. at 12-15. None of Galoob's proffered analogies addresses the issue presented by this case.

Unlike the altered audiovisual works of the Game Genie, which are generated from data and instructions contained both in the NES game cartridge and the Game Genie and which can be repeatedly displayed from those fixed data and instructions, the alterations in Galoob's analogies are spontaneously created by the physical motions of human actors singing, speaking, or flipping the controls of a VCR or stereo amplifier while a work is being performed. These spontaneous events are ephemeral. None of Galoob's false analogies presents the case of an altered audiovisual work that is embodied in digital computer program data and instructions fixed in computer memory devices or in any other medium of expression from which it can be repeatedly and indefinitely generated, as can the Game Genie's altered works.[4]

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which are contained in the Game Genie and some of which are contained in the game cartridge. *See* Pet. at 3-6. Nor does it dispute that the same altered audiovisual work can be replayed repeatedly and indefinitely from these data and instructions for as long as the Game Genie is in use. 4/23/91 RT 61:21 to 65:4; 4/26/91 RT 30:9-12, 32:21 to 34:6; 4/29/91 RT 29:20 to 30:13, 54:22 to 55:10. It is also undisputed that the Game Genie can create an essentially unlimited number of different derivative works containing an unlimited variety of alterations. CR 192 ¶ 22; 4/29/91 RT 35:4 to 37:23, 64:6-9.

[4] Galoob also invokes the Ninth Circuit's analogies of the Game Genie to imaginary lenses and kaleidoscopes. *See* Opp. at 10-11. These analogies suffer from the same defects as Galoob's analogies. Assuming that the alterations to the viewer's perception of the artworks caused by the lenses or kaleidoscope amounted to the creation

Galoob's dire predictions that a decision in Nintendo's favor would make everyone an infringer are incorrect. To the contrary, it is the Ninth Circuit's decision that will wreak havoc with settled rights of copyright holders. It is widely recognized that in coming years digital information media in a wide variety of formats will be one of the primary means by which copyrighted works of all descriptions will be distributed to the public. As the Game Genie itself demonstrates, when a copyrighted work is embodied in digitally encoded data and instructions, a limitless variety of derivative works are easily created by combining data and instructions used to generate the preexisting work with data and instructions from another source. If the Ninth Circuit's decision is left unreviewed, it will permit anyone to use this method to create any conceivable derivative work from any copyrighted work embodied in digital media.

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of derivative works, those alterations, unlike those created by the Game Genie, would not be embodied in computer program data and instructions or in any other medium of expression from which they could be repeatedly reproduced. Instead, they would be created by the physical motions of the viewer in positioning himself and the lenses or kaleidoscope with respect to the artworks, and could only be reproduced by the viewer again repeating those same physical motions.

Additionally, the Ninth Circuit's analogies are inapposite because the optical devices in those analogies alter the viewer's *perception* of the work (as intoxication or other physical impairment of the viewer might) without altering the work's objective appearance. Unlike the Ninth Circuit's imaginary lenses and kaleidoscope, the Game Genie is not a passive optical device that sits between the illuminated display of the unaltered preexisting audiovisual work on the television screen and the viewer, intercepting and distorting rays of light as they pass from the screen to the viewer's eye. Instead, it is the Game Genie's data and instructions, together with those of the game cartridge, that generate the sounds and images of the altered audiovisual work that are displayed on the television screen in the first place. The data and instructions contained in the Game Genie and the game cartridge determine the objective appearance and sounds of the new altered works at issue in this case, rather than altering the viewer's perception of the work's appearance through lenses or kaleidoscopes.

II. THE SEVENTH CIRCUIT'S *MIDWAY* DECISION CONFLICTS WITH THE NINTH CIRCUIT'S DECISION HERE

As set forth in the Petition at 15-16, the Ninth Circuit's decision in this case conflicts directly with the Seventh Circuit's decision in *Midway Mfg. Co. v. Artic Int'l, Inc.*, 704 F.2d 1009 (7th Cir.), *cert. denied*, 464 U.S. 823 (1983). Galoob attempts to distinguish *Midway* by erroneously asserting that the derivative audiovisual work in that case was generated solely from the add-on circuit board sold by the infringer and that the add-on circuit board, standing alone, was therefore in itself an infringing derivative work. Opp. at 17.[5]

Contrary to Galoob's misreading of *Midway* (in which the Ninth Circuit joined, Pet. App. at A-8), there is no technological difference between the manner in which the altered audiovisual work was generated in *Midway* and the manner in which the altered audiovisual works created by the Game Genie are generated. *See* Pet. at 15-16. Standing alone, both the add-on circuit board sold by the infringer in *Midway* and the Game Genie are incapable of generating any audiovisual work; both must be combined with a copy of the preexisting audiovisual work

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[5] Here and elsewhere in its Opposition, Galoob proposes that, no matter how the sounds and images of an audiovisual work are altered, no derivative audiovisual work is created unless the infringer has also copied the computer program ("software") used to generate the preexisting audiovisual work. Galoob's proposal confuses the copyright protection accorded to an audiovisual work with the separate copyright protection accorded to the computer program data and instructions used to generate the audiovisual work. Under the Copyright Act, the computer program used to generate a video game audiovisual work is a literary work that is separately protected by copyright apart from the copyright protection accorded to the audiovisual work that it generates. *See, e.g., M. Kramer Mfg. Co.*, 783 F.2d at 441; *Williams Electronics*, 685 F.2d at 873-77; *Stern Electronics*, 669 F.2d at 855-56; 1 P. Goldstein, COPYRIGHT § 2.12.2 (1989). Contrary to Galoob, each of these two separate works may independently be infringed whether or not the other work is also infringed. *See Atari Games Corp. v. Oman*, 888 F.2d 878, 885-86 (D.C. Cir. 1989); *Stern Electronics*, 669 F.2d at 855-56.

sold by the copyright owner in order to create their derivative works.[6] The infringer's add-on circuit board in *Midway*, standing alone, was not an infringing derivative work because, like the Game Genie, it did not copy and replace "the computer programs necessary to create the shapes seen on the screen" and thus could not generate the altered audiovisual work by itself. *Midway Mfg. Co. v. Artic Int'l, Inc.*, 547 F. Supp. 999, 1002 (N.D.Ill. 1982) (district court opinion). Instead, the altered audiovisual work in *Midway* was generated from computer program data and instructions in the add-on circuit board and from computer program data and instructions contained in the copy of the preexisting audiovisual work sold by the copyright owner (*i.e.*, the "motherboard" described by the district court, 547 F. Supp. at 1002). Likewise, the altered audiovisual works in this case are generated from data and instructions from the Game Genie and data and instructions from the copy of the preexisting work (*i.e.*, the NES game cartridge) sold by Nintendo.

The conflict between the decision in *Midway* and the Ninth Circuit's decision in this case remains stark and irreconcilable. This Court's review is necessary to resolve this question, whose answer will define the scope of the derivative works rights of every copyright owner of works embodied in digital information media.

III. THE NINTH CIRCUIT'S DECISION CREATES A BROAD EXCEPTION TO THIS COURT'S FAIR USE PRINCIPLES

As this Court has made clear, both the question of fair use generally and the four statutory fair use factors of 17 U.S.C. § 107 are mixed questions of law and fact

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[6] The Ninth Circuit's description of the Game Genie is equally applicable to the infringer's add-on circuit board in *Midway:* "merely enhances the audiovisual displays," Pet. App. at A-6; "cannot produce an audiovisual display," Pet. App. at A-6; "useless by itself," Pet. App. at A-9; "It can only enhance, and cannot duplicate," Pet. App. at A-9; "It does not contain or produce [the original game's audiovisual] output," Pet. App. at A-9; "nor does it supplant demand [for copies of the original game]," Pet. App. at A-9.

which this Court determines *de novo* "'as a matter of law.'" *Harper & Row, Publishers, Inc. v. Nation Enterprises*, 471 U.S. 539, 560 (1985) (citation omitted). Thus, contrary to Galoob's suggestions, the conclusions of the lower courts as to each of the statutory fair use factors and as to the ultimate issue of fair use are not findings of fact to which this Court defers. Because there is no dispute over the basic historical facts relevant to the fair use determination here, this case presents an especially appropriate vehicle for correcting the Ninth Circuit's extreme departure from this Court's settled fair use jurisprudence.

A. Under The First Factor, The Profitable Misappropriation Of Nintendo's Derivative Work Rights Makes The Game Genie's Derivative Works Unfair.

As set forth in Nintendo's Petition at 20, the VCR time-shifting at issue in *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984), bears no resemblance to the fair use issue in this case. Nevertheless, Galoob asserts that this case is on all fours with *Sony*, and therefore, that the Game Genie's unauthorized derivative works should be a presumptively fair use under the first factor (purpose and character of the use). Opp. at 20.

The difference between the use of the copyrighted works in *Sony* and in this case arises not from a tautology, as Galoob asserts, Opp. at 20-21, but from a real and controlling difference in the facts. In *Sony*, the copyright owner had already given to the public the right to view his work for free by the act of publicly broadcasting the program. *See* Pet. at 20. Having been given the right to a single viewing for free, the time-shifter did not take that right "without paying the customary price" for it in recording the program for a single viewing at a later time. *See Harper & Row*, 471 U.S. at 562.

Here, the right taken from Nintendo by use of the Game Genie is the right to create derivative works from Nintendo's audiovisual works. Because Nintendo has not given this right to Game Genie users, they profit by

taking this right without paying Nintendo any price for it. On these undisputed facts, the unauthorized appropriation of Nintendo's valuable right to create derivative works is presumptively unfair.[7] *See* Pet. at 20-23.

B. Under The Second Factor, The Creative Nature Of Nintendo's Works Weighs Against Fair Use.

Galoob erroneously states that the Ninth Circuit held that the second factor (the nature of the work) weighed in favor of fair use. Opp. at 21. To the contrary, the Ninth Circuit, quoting *Stewart v. Abend*, 495 U.S. 207, 237 (1990), held that, despite the fact that Nintendo's audiovisual works were published, their nature as creative works weighed against fair use under the second factor. Pet. App. at A-13, A-17. Here again, there is no dispute over the creative nature of Nintendo's works.

C. Under The Third Factor, The Massive Incorporation Of Nintendo's Preexisting Works Into The Game Genie's Derivative Works Weighs Against Fair Use.

It is also an undisputed fact that, as the Ninth Circuit recognized, "the derivative works created by the Game Genie are comprised almost entirely of Nintendo's copyrighted displays." Pet. App. at A-13 to A-14. It is settled law that, under the third factor (amount and substantiality of the portion used), this incorporation of a "substantial portion" of a preexisting creative work into

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[7] Galoob also argues that any infringing activity that is committed in the home is automatically a fair use. Neither the Copyright Act nor this Court's decision in *Sony*, however, creates a blanket exemption for infringements committed in the home. In the words of one prominent copyright scholar, "[a] categorical exemption for home uses of copyrighted works finds no support in the text of the Copyright Act. A categorical home use exemption also finds no support in copyright policy. New technologies . . . have redirected economically valuable uses of copyrighted works from the public marketplace into private homes." 1 P. Goldstein, COPYRIGHT § 5.0 at 518 (1989); *see also Sony*, 464 U.S. at 475 (Blackmun, J., dissenting) (noting that the Copyright Act creates no blanket exemption for infringing activities committed in the home).

a derivative work weighs against fair use. *Stewart v. Abend*, 495 U.S. at 238.

The Ninth Circuit, however, refused to accord any weight at all to these massive appropriations, holding that by purchasing NES game cartridges Game Genie users had thereby acquired as well the right to create "enjoyable" derivative works. Pet. App. A-13 to A-14. As explained in Nintendo's Petition at 23 and n.15, this conclusion is contrary both to the express terms of the Copyright Act, 17 U.S.C. § 202, and to this Court's decision in *Stewart v. Abend*.

Galoob attempts to distinguish *Stewart v. Abend* by asserting incorrectly that in that case "the defendant had no more right to *use* the original work than to *alter* it." Opp. at 23 (emphasis in original). To the contrary, Jimmy Stewart (a defendant in that case) does have the right to "use" the original, unaltered work (Cornell Woolrich's short story "It Had To Be Murder") by reading and re-reading it, just as owners of NES game cartridges have the right to play and replay Nintendo's original, unaltered audiovisual works as much as they like. But just as Mr. Stewart's ownership of a copy of the short story gives him no right to create derivative works from the short story now that his express license to do so has terminated, *Stewart v. Abend*, 495 U.S. at 223, 235-36, the ownership of NES cartridges by Game Genie users does not grant them any right or license to create derivative works. Accordingly, the massive unauthorized incorporation of Nintendo's audiovisual works into the Game Genie's derivative works weighs against fair use.

D. Under The Fourth Factor, The Supplantation By The Game Genie Of The Market For The Derivative Works It Creates Is An Unfair Use.

As with the other fair use factors, there are no disputed historical facts as to the supplanting effect of the Game Genie and the derivative works it creates on the

market for those same derivative works, a market which the Copyright Act grants exclusively to Nintendo. Galoob does not dispute its prior statement that a $150 million market for the Game Genie existed in 1990 and 1991 alone. *See* Pet. at 7. Given that the Game Genie's sole purpose and function is to create derivative works based on NES audiovisual works,[8] Galoob also does not dispute that the economic demand for the Game Genie represents nothing more than the sum of the demand for each of the derivative works it creates.

Although it does not dispute any of the above, Galoob argues that there exists no practical method by which Nintendo itself might sell the derivative works that are created by the Game Genie, and that consequently Galoob is free to exploit that derivative works market with impunity. Opp. at 25 n.21. Galoob acknowledged below, however, that Nintendo could easily make and market its own Game Genie-like device and thereby market derivative versions of its audiovisual works in the same manner that Galoob is marketing them. 2/8/91 RT at 13:14-18. In light of these undisputed facts, the only possible conclusion is that the derivative works created by the Game Genie from Nintendo's audiovisual works are supplanting the market for those derivative works, a market that is Nintendo's alone.

CONCLUSION

The petition for a writ of certiorari should be granted.

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[8] 4/29/91 RT 26:12 to 27:11; 4/30/91 RT 60:15-19. There is no other reason to buy the Game Genie, nor any other use for it, than to create derivative works. In this respect, the Game Genie is unlike a VCR or a host of other devices, which combines in a single technical function both infringing and noninfringing uses. Likewise, there is no issue here of whether or not other video game copyright holders object to the Game Genie, for Galoob admitted it could have made, but chose not to, a Game Genie that would work only with video games whose copyrights are *not* owned by Nintendo and that would have been incapable of creating the infringements at issue here. 4/29/91 RT 65:21 to 66:23, 75:9-15.

Respectfully submitted,

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